

CREDIT OPINION

2 November 2016

New Issue

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Dublin (City of) Ohio

New Issue - Moody's Assigns Aaa to Dublin, OH's \$9.2M GOLT Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the City of Dublin, OH's \$9.2 million General Obligation (Limited Tax) Capital Facilities Bonds, Series 2016. Moody's maintains the Aaa rating on the city's outstanding general obligation limited tax (GOLT) debt. Post-sale, the city will have \$99 million of GOLT debt outstanding.

The Aaa GOLT rating reflects the city's large and affluent tax base in the Columbus (Aaa stable) metro area, and strong financial operations supported by robust reserve levels and a conservative management team. The rating also considers the city's high debt burden and exposure to poorly funded statewide pension plans. Additionally, the rating reflects the state requirement that Ohio cities use all available revenues, including available property tax millage under the ten mill limitation statutory code, for the payment of debt service prior to any other uses.

Credit Strengths

- » Affluent tax base located in the Columbus metropolitan area
- » Robust operating fund reserves
- » Strong and proactive management team

Credit Challenges

- » High debt burden with slow amortization schedule
- » Above average unfunded pension liabilities

Rating Outlook

Outlooks are not usually assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to a Downgrade

- » Growth in the city's debt or pension burden
- » Material multi-year declines in fund balances and liquidity
- » Significant unexpected support for the Bridge Park project, reducing General Fund reserves and liquidity

Key Indicators

Exhibit 1

Dublin (City of) OH	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 5,838,579	\$ 5,580,956	\$ 5,578,344	\$ 5,527,763	\$ 5,724,045
Full Value Per Capita	\$ 144,688	\$ 136,064	\$ 132,951	\$ 130,439	\$ 128,224
Median Family Income (% of US Median)	210.3%	214.6%	210.1%	208.4%	208.4%
Finances					
Operating Revenue (\$000)	\$ 58,093	\$ 62,802	\$ 65,566	\$ 70,019	\$ 70,084
Fund Balance as a % of Revenues	78.7%	82.5%	86.9%	81.2%	90.7%
Cash Balance as a % of Revenues	79.8%	85.3%	87.3%	89.4%	95.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 39,845	\$ 46,635	\$ 51,580	\$ 56,895	\$ 131,885
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.8x	0.8x	1.9x
Net Direct Debt / Full Value (%)	0.7%	0.8%	0.9%	1.0%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.7x	2.2x	2.3x	2.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.9%	2.5%	2.9%	2.7%

Table reflects data as of fiscal year-end.

Source: Audited Financial Statements, US Census, Moody's Investors Service

Recent Developments

Audited financial statements reflect an operating surplus of \$11.1 million in fiscal 2015. City officials estimate closing fiscal 2016 with a draw on general fund reserves of \$9.2 million, though actual results could be significantly better.

Detailed Rating Considerations

Economy and Tax Base: Affluent And Diverse Tax Base Favorably Located In The Columbus Metropolitan Area

The city's tax base will remain strong despite recent valuation declines due to its favorable location in the Columbus metropolitan area as well as a distinct commercial base within the city. Full valuation grew by 3.6% in 2015 before increasing another 1.8% in 2016 to its current \$5.8 billion. Valuation previously declined by a cumulative 5.3% between 2011 and 2014. Given the relative resiliency of the tax base during the recession, valuations are expected to remain stable over the long term. The city is primarily residential (77% of assessed valuation) and serves as an attractive option for many employed in the greater Columbus area given its high service levels and affluent population. This has driven rapid growth in the city's population which has increased to 41,751 as of the 2010 census (33% increase since 2000).

Management estimates that the daytime population of the city well exceeds its reported population given the city's large and healthy commercial sector which comprises 21% of assessed value. Recently, the city benefitted from a number of businesses or institutions relocating or expanding inside the city. These include Vadata Inc., an affiliate of Amazon Web Services and the expansion of Ohio University's Heritage College of Osteopathic Medicine in April 2015 that expects 40 new jobs and 400 new students. The city is proactive in its use of Economic Development Agreements (EDAs) to attract diverse businesses to the area. Instead of using tax abatements, management offers performance based income tax incentives to create and retain employment. Some of the largest employers in the city include Cardinal Health, Inc. (Baa2 positive; 3,600 employees) and OhioHealth (Aa2 stable; 1,680 employees). There have also been two notable employment losses for the city. Nationwide Life Insurance Company (A1 stable; 3,400 employees) is relocating its operations from Dublin, a process expected to be completed in by 2017. JPMorgan Chase & Co. (A3 stable; 500 employees) has also announced plans to relocate its Dublin office. The unemployment rate in the city of 3.0% as of August 2016 is well below both the rates in the state (4.7%) and the nation (5.0%) over the same period. Median family income in the city far exceeds that of the nation at 215% of national figure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial Operations and Reserves: Strong Financial Operations Supported By Robust Reserves; Heavy Reliance On Economically Sensitive Income Tax Revenues

Despite reliance on economically sensitive revenues and taxpayer concentration, the city's financial profile is expected to remain strong due to conservative budgeting and a strong reserve policy. The city has enjoyed a steady history of operating surpluses, increasing available operating fund (General and Debt Service) reserves from \$35.4 million (64.0% of revenues) in 2010 to \$63.6 million (90.7% of revenues) by the close of 2015. The city's available fund balance grew by \$11.1 million in fiscal 2015 alone, primarily due to a trend of strong income tax growth and positive budget to actual variances. City management typically budgets conservatively and initially budgeted for a 5.4% decrease in income tax revenues, however actual collections came in only 0.3% under 2014 actual collections. Income taxes are derived from a 2% continuous municipal income tax levied on all employees and residents in the city.

Income tax receipts are the city's largest revenue stream at 91% in 2015. In order to offset some of the risks associated with a volatile primary revenue source, the city has a policy to maintain at least 50% of expenditures in reserves to gird against fluctuations. These reserve levels provide the city with time to make budget adjustments necessary to adjust expenditures in the face of declining revenues. While the city's income tax base is concentrated with the top ten taxpayers comprising over 30% of collections, this is mitigated somewhat by the diverse group of sectors that the largest employers are derived from, including healthcare, financial, and government. After increasing at an average annual rate of 6.0% from 2010 to 2014, income tax revenues declined by 0.3% in 2015 due to the relocation of Verizon employees. Through September 2016, income tax collections are up 2.2% year over year, compared to a budgeted decrease of 5.1%.

Management currently estimates a \$9 million deficit in the city's General Fund for fiscal 2015. However, given the city's history of positive budget variances, the actual results are likely to be better than budgeted. Management is budgeting for a 4.0% decline in income tax receipts in 2017. The city annually transfers approximately \$12-14 million out of the General Fund for public safety operations, street maintenance and repair, recreation, pools, and cemetery. These transfers are supported by a dedicated levy for public safety.

LIQUIDITY

The city closed fiscal 2015 with an operating fund (General and Debt Service) net cash balance of \$70.0 million, or 95.5% of revenues.

Debt and Pensions: High Debt Burden For Rating Category With Future Borrowing Planned

The city's debt burden is high relative to the Aaa rating and is projected to grow with additional borrowings for economic development. Net direct debt is 2.5% of full value, exceeding the state and national averages for the Aaa category. At the end of fiscal 2015, debt service comprised a manageable 14.0% of operating expenditures. The city's five year capital improvement program includes a number of projects which are expected to be financed with cash, debt, and tax increment financing (TIF) revenues. Preliminary estimates indicate approximately \$35 to \$45 million in debt will be issued next year to accommodate upcoming projects. Future rating reviews will likely focus on the city's ability to meet the infrastructure needs of a growing community without significantly escalating leverage on the tax base. Significant growth in the city's debt burden could place pressure on the city's rating.

The city's pension burden is also above average. The Moody's adjusted net pension liability (ANPL) for the city in fiscal 2015, which incorporates adjustments we make to reported pension data, is \$156 million, or 2.7% of full valuation and 2.2 times fiscal 2015 operating fund revenue. Total fixed costs, inclusive of debt service and retirement plan contributions, were a moderate 18% of operating fund revenue in 2015.

DEBT STRUCTURE

All of the city's outstanding debt is fixed rate. In addition to the outstanding GOLT bonds, the city also has \$32 million in nontax revenue bonds (Aa1) which are notched once off the city's Aaa GO rating. The city's principal amortization is below average with 55.3% of outstanding general obligation and nontax revenue debt retired within ten years.

The city's nontax revenues include charges for services; fees, licenses and permits; fines and forfeitures; investment earnings; intergovernmental revenues; and payments in lieu of taxes. The nontax revenue bonds contain a satisfactory additional bonds test, requiring a minimum of 2.0 times debt service coverage before additional bonds can be issued. Estimated maximum annual debt service on all the nontax revenue obligations is \$2.1 million (in 2031), with a debt service coverage of 3.4 times. We note that the city also utilizes nontax revenues to cover General Fund expenditures, with the pledged nontax revenues equaling approximately 10% of

General Fund revenues. Favorably, maximum annual debt service (MADS) on the nontax revenue bonds comprises a modest 3% of the city's Operating Fund revenues.

DEBT-RELATED DERIVATIVES

The city is not a party to any interest rate swap agreements.

PENSIONS AND OPEB

City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). Ohio statutes establish local government retirement contributions as a share of annual payroll. While the city has routinely made its full statutorily required payment to the cost-sharing plans, statutory contributions to OP&F were set well below actuarially based standards for a number of years, resulting in steady growth in that plan's unfunded liability. In fiscal 2015, the city contributed \$3.9 million to the two pension plans, or 5.6% of operating revenue.

Statewide employer contributions to OP&F and OPERS in fiscal 2015 were 93% and 111% of the plans' respective ["tread water" indicators](#). The "tread water" indicators measure the annual employer contributions required to prevent the reported net pension liabilities from growing, under plan assumptions. After accounting for employee contributions, annual government contributions that tread water equal the sum of current year service costs and interest on the reported net pension liabilities at the start of the year.

Ohio statute establishes a 30-year target for amortizing unfunded liabilities of all statewide cost-sharing plans. If plan actuaries determine that current contribution rates and actuarial assumptions result in an amortization period exceeding 30 years, the pension fund must submit a plan for adjusting contributions or benefits to meet the 30-year requirement. The state legislature adopted benefit reforms for all Ohio cost-sharing plans in 2012 to control annual cost-of-living adjustments for retirees, resulting in a considerable decline in reported unfunded pension plan liabilities in 2013. For more information on Ohio pension plans, please see our [public pension landscape series on Ohio](#), published in September 2014.

Management and Governance: Moderate Institutional Framework

Ohio cities have an institutional framework score of "A," or moderate. The volatility of income taxes, typically the primary source of operating revenue, results in low revenue predictability. Cities also rely on voter-approved property taxes to support activities such as public safety and street maintenance. Cities have a moderate ability to raise revenues, as voter authorization is necessary to raise income tax rates above 1%. Cities can also increase property tax rates above their charter caps with voter authorization. Expenditures mostly consist of personnel costs, which are moderately predictable. However, these costs tend to be impacted by labor agreements, resulting in moderate expenditure reduction ability.

The city's consistent history of positive variances reflects conservative budgeting practices. Management recently adopted a formal debt policy to support its continued borrowing, designating 60% of all income tax revenues collected into the capital fund for debt service. The city currently allocates 0.25% of the 2.0% income tax to capital. Additionally, reserves in the General Fund that exceed 75% of expenditures are transferred to the capital fund.

Legal Security

Debt service on the GOLT bonds is secured by the city's general obligation limited tax pledge, subject to the ten mill limitation defined in Ohio law.

Use of Proceeds

The proceeds from the Series 2016 GOLT Bonds will be used to finance a variety of infrastructure improvements in the city's Bridge Street District.

Obligor Profile

The city of Dublin is located approximately seventeen miles northwest of Columbus, offering a variety of municipal services to a population of approximately 44,000.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Dublin (City of) OH

Issue	Rating
General Obligation (Limited Tax) Capital Facilities Bonds, Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	\$9,205,000
Expected Sale Date	11/15/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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REPORT NUMBER

1047939